

ABOUT CREDIT ON PREPAID

“THE REGULATORS, THEY EXPECT PERFECTION” – BRAD HANSON, EVP, METABANK

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SIMPLE OUTLINE FOR THIS PRESENTATION

Hear a case study on the i-advance line of credit

See gaps in the existing Regulatory Framework

WHAT I HOPE YOU WILL TAKE AWAY FROM THIS PRESENTATION

- understand the implications of the OTS guidance
- Understand emerging issues for prepaid debit cards

HOW PREPAID CARDS ARE USED

- Direct deposit is enabled on 34.2 percent of prepaid cards (NetSpend 10-K, 2011)
- Consumers are more likely to shop online when they intend to use a card as a full-service payments account. (Federal Reserve)
- Only one in five ATM withdrawals is made in-network. (BB&T)
- Almost two-in-three account holders wants the card for online shopping. (CFSI)
- 30 percent bought their prepaid card at Wal-Mart
- They cost less: about \$185 per year, compared to about \$256 for using check cashers and money orders, or about \$273 for a checking account. (Bretton Woods, 2011)

| Transaction | Per Month Usage | Average Amount | Balance |
|-----------------------|-----------------|----------------|-------------|
| Loads/Direct Deposits | 2.25 | \$ 263.00 | \$ 591.75 |
| less ATM Withdrawals | 2.06 | \$ (152.00) | \$ (313.12) |
| less POS Signature | 6.2 | \$ (17.33) | \$ (107.45) |
| less POS PIN | 3.8 | \$ (27.68) | \$ (105.18) |
| less Fees | 1.00 | \$ (6.88) | \$ (6.88) |
| <i>Savings</i> | | | \$ 59.12 |

“My customers don’t have a short-term cash emergency. My customers live in a state of permanent financial emergency.”

Green Dot CEO Steve Streit

ITERATIONS OF PREPAID CREDIT

I-ADVANCE

\$2.50 for a \$20
advance

Collected from next
direct deposit

Can be used in
successive months

EMERALD ADVANCE

Annual fee of \$45

36 percent APR

Begins Nov. 30th, closes
on February 15th

Must have direct
deposit or a deposit-
secured sub-account

Monthly minimum
payment of \$40

Maximum line of credit
is factored by income

METABANK'S BUSINESS MODEL

About MetaPayment Systems

- \$655 million in deposits held on Sept. 30th, 2010
- \$112 billion in deposits made on to cards in 2010

About the i-advance product

- Terms of the i-advance
- Genesis of an i-advance
- Availability
- MetaPayment Systems – large payment processor
- Other products
 - pre-season RAL for Jackson Hewitt
 - Facilitates 7 million RACs in partnership with Santa Barbara TPG in 2010

TIMELINE FOR THE METABANK FIGHT

2007: MetaBank Payment Systems offers “micro-credit” short-term loan on prepaid cards

2008: Test markets a RAL program using prepaid cards

2008: card deposits still held in pooled accounts

Dec. 26, 2009: MetaBank establishes RAC relationship with SBTPG

March 20, 2010: Advocates meet with Treasury

August 20, 2010: New 4-year RAC agreement with SBTPG

August 30th, 2010: Advocates meet with OTS

October 6th, 2010: OTS issues directive

July 15, 2011: \$4.2 million restitution agreement

WHAT'S MISSING WITH THE DIRECTIVE?

Concerns enumerated by the OTS Guidance

- Compliance with Bank Secrecy Act and Basel AML
- Customer identification “Know your customer”
- Unfair and Deceptive Acts or practices
- Special prohibition placed on thrifts about advertising

Enforcements

- No new third-party relationships concerning any credit product
- No income tax RALs
- No income tax refund transfer processing service
- \$4.2 million in restitution

APPENDIX: PREPAID CARD ISSUERS

MetaBank: (OTS/OCC) Storm Lake, IA (NetSpend, Account Now, Western Union, Jackson Hewitt)

Bancorp Bank: (FDIC) Wilmington, DE (NetSpend, AccountNow, Rush Card, Liberty Tax)

Bonneville Bancorp: (FDIC) Provo, UT (Green Dot)

Inter National Bank: (OCC) McAllen, TX (Liberty Tax)

Synovus Bank: (FDIC) Columbus, GA (Wal-Mart)

GE Money Bank: (OTS/OCC) Draper, UT (Wal-Mart)

M&T Bank (Federal Reserve) (Buffalo, NY)

Discover Bank: Greenwood, DE.

Palm Desert National Bank: (OCC) Palm Desert, CA

First Bank & Trust: (FDIC) Brookings, SD

Horizon Bank (FDIC) (Austin, TX) (Mango)

Urban Trust Bank (OTS/OCC) FL (CheckSmart Insight)